

City of Upland's BLAST Pension Strategy

Addressing Pensions Without Pension Obligation Bonds

Upland City Council and Staff have been aware of and have taken steps to address the City's rising pension costs and its unfunded accrued liabilities (UAL) with the California Public Employees' Retirement System ("CalPERS") for a number of years.

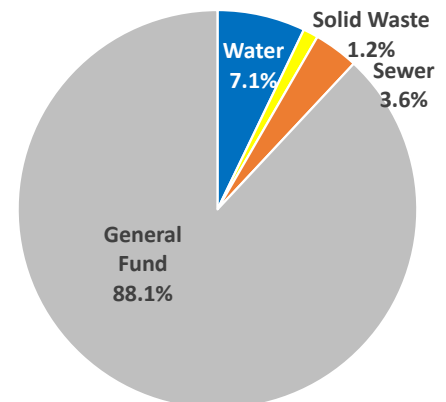
UAL - The unfunded accrued liability is the measure of the funding shortfall of each agency's pension liability. The UAL is equal to the difference between:

1. Estimated value of benefits earned and expected to be paid to current employees and retirees in the future in today's dollars; and
2. Market value of investment held by CalPERS.

The City's UAL as of its most recent actuarial report (June 30, 2020) is equal to \$127 million. The city is required to make annual fixed dollar payments to pay down its UAL. UAL payment are calculated based on CalPERS discount rate of 7.0%, with payments totaling over \$228 million over the next 22 years.

Some of the steps City Council has taken to address its UAL include:

- Establishing a Section 115 Pension Trust with PARS in 2016 to set aside and invest monies restricted to addressing the City's pension liability.
- Making 5 subsequent deposits into Section 115 Pension Trust totaling \$12.4 million.
- Approving Memorandum of Understandings with all safety labor groups in 2016 calling for safety employees to begin contributing 3% towards the employer portion of the CalPERS normal cost (on top of the entire 9% employee share).
- Deciding in November 2016 to transfer City fire service operations to San Bernardino County (transfer took place in July 2017) in part to limit and/or reduce anticipated future pension liabilities.
- Approving Memorandum of Understandings with all non-safety labor groups in 2019 calling for all classic non-safety employees hired after January 1, 2020, to begin contributing 1.4% toward the employer portion of the CalPERS normal cost (on top of the entire 8% employee share).
- Issuing an RFQ in 2020 soliciting municipal advisors, culminating in engaging Urban Futures, Inc. ("UFI") to provide pension advisory services to assist the Finance Committee and City Council with evaluating Pension Obligation Bonds and other options.



- Adopting a Pension Funding Policy and General Fund Reserve Policy in 2021 that established three approaches to set aside funds with the City's Section 115 Pension Trust and called for accelerating the payoff of new UAL bases.
- Holding 10 public workshops, meetings and study sessions with the Finance Committee and City Council from September 2020 to December 2021 to understand its liability and evaluate its options.

Due to legal constraints and concerns about market timing risk, the City decided to pursue alternatives to Pension Obligation Bonds. Working with its financial advisor, it developed multiple strategies to address its UAL.

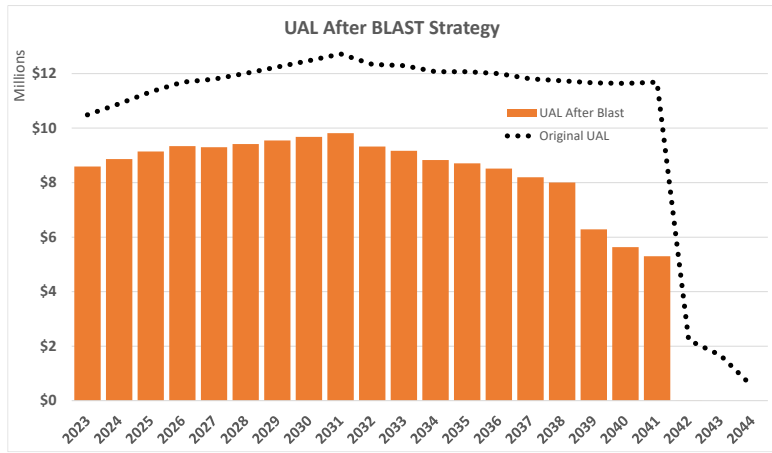
The key to the BLAST Strategy is tapping into underutilized resources, primarily excess reserves in the City's Water, Sewer & Solid Waste funds, which had a 12% share of the UAL (\$15.3 million).

There are 5 component parts to the BLAST strategy:

1. **Bonds** – Issue tax-exempt bonds to finance “pay-go” capital projects. Tax-exempt bond rates are much lower than the CalPERS Discount Rate (2.0% vs. 7.0%). The Water Fund issued \$15.75 million of 15-year bonds @ 1.92% for proceeds of \$15.50 million.

Issuing bonds for capital projects enable the Water Fund to utilize its previously designated reserves to make investment in or internal loan to the General Fund.

2. **Lease Investment** – The Water Fund used available reserves to make an internal loan to the General Fund to pay a portion of its UAL. The loan, which took the form of investing in General Fund debt, matched the terms of the Water Bonds (\$15.75 million / 15-years @ 1.92%). The Sewer Fund also made a \$5 million investment with the General Fund from its available reserves at the same rate.
3. **ADP** – The City made an Additional Discretionary Payment (ADP) from monies held in the Section 115 Pension Trust to “pre-pay” \$10 million of its UAL – saving \$19.6 million in total UAL payments.
4. **Savings** – The City Council adopted a formal Pension Funding Policy, which requires 50% of budgetary savings realized from the BLAST strategy to be deposited into the Section 115 Pension Trust, which will be available to address future increases to the UAL.
5. **Transfer** – The Water, Sewer & Solid Waste fund reserves transferred \$15.3 million from its reserves to CalPERS to pay off their share (12.9%) of the City's UAL.



\$15.26 Million Enterprise Fund Reserves

- \$9.1 Million Water Fund
- \$4.6 Million Sewer Fund
- \$1.6 Million Solid Waste Fund

\$10.0 Million General Fund ADP

\$20.75 Million General Fund Lease

\$46.01 Million

Net UAL Savings

\$32,340,972

\$19,535,177

\$14,924,287

\$66,800,436

After City Council approval, implementation of the strategy commenced in December 2021 and was complete by the Spring of 2022 - taking 120 days to complete. The BLAST Strategy will save the city \$66.8 million in UAL payments over the next 22 years, and lowering its annual UAL payment by \$3-4 million, all without the use of taxable Pension Obligation Bonds (POBs).

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